

Independent Rates Oversight Committee – IROC
December 21, 2009
M I N U T E S

1. **Roll Call**

Chairperson Billings called the meeting to order at 10:04 a.m. Monica Musaraca called the roll and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Donald Billings, Chair	X	
Tony Collins	X	
Christopher Dull	X	
Andy Hollingworth		X
Jack Kubota	X	
Jim Peugh	X	
Irene Stallard-Rodriguez		X
Todd Webster	X	
Gail Welch		X
ExOfficios		
Scott Tulloch, Metro JPA		X
Augie Caires	X	
Ken Williams, City 10	X	

2. **Non-Agenda Public Comment**

There were no non-agenda public comments.

3. **Approval of Minutes from 11/16/09**

Chairperson Billings asked for a motion to approve the Minutes of November 16, 2009 with no corrections. Committee Member Kubota moved to approve, Committee Member Peugh seconded, with one abstention (Dull) all were in favor.

4. **Chair Updates – Chairperson Billings**

- Thanked City staff for arranging a visit to Barry Newman and present him with special photos as well as a proclamation signed by Mayor Jerry Sanders, announcing Barry Newman Day which was proclaimed to be December 14, 2009. Barry Newman was in good spirits and enjoyed the visit.

5. **City Staff Updates**

Jim Barrett, Public Utilities Department Director

- Mayor's office is looking for a replacement for the legal professional field, on the IROC.
- Council approved the pass-through rate, 6-2. Mr. Ruiz will talk about restructuring options within the water rate later in the Agenda.
- Letter received from Otay threatening litigation regarding the Reclaimed Rate, will be going to Council for an Ordinance, due to the time constraint, to ask for an extension with the Raftelis contract.

Independent Rates Oversight Committee – IROC

December 21, 2009

MINUTES

- Went to Regional Water Quality Control Board and did not go well. They are asking for \$680,000, which is \$60,000 more than expected, to repay Santa Fe any additional operating costs they may have experienced while Lake Hodges was closed due to a sewer spill in August 2007. This spill released into a drinking water reservoir through a canyon, due to a mop handle being lodged in a pipe. Committee Member Webster stated he feels it is extremely unfair due to the nature of the cause.
- Coastal Commission hearing for the Pt. Loma Waiver is set for sometime in February. The Mayor intends to be there for this final step. The Council approved the consistency determination by a vote of 8-3. There is a concern that if the condition is accepted, we are basically giving them jurisdiction over our permit. Tom Zeleny, Deputy City Attorney, added one of the goals at the next Coastal Commission meeting is to get clarification from the Commission what exactly the condition is, and what the City needs to do to comply with the condition.
- Council approved the Beneficial Use of Digester Gas by a vote of 8-0 earlier this month.
- One issue related to budget is whether or not the Enterprise Fund should be paying for the City's portion of an Agreement signed in 1989 with the San Dieguito River Park, JPA. This is being looked in to.

Committee Member Peugh asked, after the Adobe Falls spill there was some discussion of implementing sensors in critical pipe areas, has this moved forward. Mr. Barrett stated there is a monitoring system, but he does not have the information or the staff present today to discuss. Perhaps this topic can be revisited. Mr. Zeleny stated there are approximately 175 sewer flow monitors in the system, but added lines this small are extremely difficult to monitor. Mr. Barrett added that canyon spills are also uncommon, but can be costly.

Alex Ruiz, Assistant Director

- The conversion to the Human Capital Management (HCM) component of SAP, the Citywide ERP solution, is live today.
- Department has taken more of a leadership role with the Purchasing and Contracting Department Citywide. This should help to expedite the contract process.

Luis Generoso was introduced to give an update on the Conservation Savings. He provided a memo to the NR&C Committee and stated there was a 9.5% reduction Citywide in October, and broke it down by usage. He stated the CWA reduction goal is 8% so the City is on track. He added in regard to the recent article on Los Angeles saving 18.4% due to mandatory conservation, in actuality they compared June-Oct 2009 to June-Oct of 2007. The City's reduction for the same time period is 16.7% with 3 days of irrigation allowed.

Independent Rates Oversight Committee – IROC

December 21, 2009

MINUTES

Committee Member Peugh asked if there has been any success with the Multifamily category in reducing their use. Mr. Generoso stated most multifamily, if they have an irrigation meter, are also responsible for the 14.5% reduction in irrigation use. Also, the proposed sub-metering ordinance will help, as well as outreach.

- Staff presented NR&C, received final comments from DPH on the Independent Advisory Panel's report. It was distributed to IROC earlier in the week. This is going forward as well as the Public Relations component of the effort and the Program Manager. IROC reviewed both efforts by Ms. Steirer several months back. Will go to Council the second week of January for the formal approval.
- Rod Greek and Sadhir Pardiwala of Raftelis gave a brief to NR&C on the Rate and Calibration effort. NR&C asked to look into how rate structures were implemented by other Agencies. Mr. Pardiwala contacted approximately four other Agencies, however, it was difficult to draw any hard conclusions with cause and effect at that time.

NR&C wants to see a presentation of our newly designed Rate Model, which was previewed by a stake holder group. This information was available for presentation to Council several months back, however, when given the opportunity, time was cut short. We will be back in January to go over that process with the NR&C.

6. Water Rate Recalibration – Customer Tier Structure

Mr. Ruiz gave a brief summary, stating they have engaged a stakeholder's group to look recalibrating the rate structures. Fundamentally, maintaining the needed revenue from each of the customer classes at a neutral level. At this point it is believed there is not a fair way to include the commercial customers due to several factors. There can be additional tiers for the single family residential, and perhaps the irrigation only account. This is being studied, and there may be a time which we can set a breakpoint between the tiers, more analysis is underway. A recommendation will be brought forward to IROC next month.

Committee Member Peugh asked if anyone in the country has a successful tiered rate system for commercial class? Mr. Ruiz stated he is certain the industries are trying within themselves to come up with efficiency measures by which we can evaluate their use of water. Those agencies who do have commercial tiers basically establish those tiers based upon historic consumption. With the various nuances, and industry specific variations, it can be very complex.

Chairperson Billings asked that if the objective is to encourage conservation, and the top residential users are price insensitive, then it wouldn't affect their behavior. Mr. Ruiz stated we are taking that factor into account, and there will be a presentation soon outlining some of these scenarios. Mr. Zeleny described Prop. 218 and that the interpretation of it is still evolving.

7. Review of Bid-to-Goal Incentive Awards

Mr. Tom Crane, Assistant Director, gave a brief update on the Audit. The Draft was received by the Department last week. Staff will meet to review any technical changes needed. He stated a response to their recommendations is due on Dec. 28 and they are planning on issuing their Report on December 31. He noted the Report includes our management's responses. He added this is expected to be on the Audit Committee's agenda in January and we will participate, and the IROC is invited to attend.

Mr. Crane confirmed a comment made last meeting, to answer Committee Member Kubota's question regarding Bid-to-Goal funds not coming from ratepayers. Mr. Crane stated it was correct commencing in FY10 that administrative costs will not come from ratepayers. Mr. Kubota then asked what is the source of the current funding. Mr. Crane stated it is a budgeted item which is part of the costs of doing business. Mr. Crane then briefly described the scope of the program.

He then described the requirements for achieving any kind of incentive award. They are team driven goals with savings from actual expenditures vs. bid and must meet Department key performance indicators and the predetermined gainsharing goals for each team. In order to achieve as an individual, the employee must have satisfactory work performance and a minimum of 480 hours worked. He reminded IROC the maximum cap of \$4,000 per employee, net of taxes. He then referred to the handout, which outlined the FY08 audited financial results and a summary of the FY08 incentive awards showing the range of payouts (gross). This range shows there are several different payout amounts employees fall into, which is determined by the earlier mentioned requirements.

Mr. Crane added next month he will provide a chart showing how the bid, actual cost, savings and cost of administering the program are formulated into how much goes into incentive awards, infrastructure and DRES account.

Chairperson Billings asked for specifics on how this is put together exactly. Mr. Greek stated for the DRES, it is a comparison to what was in the Rate Case vs. actual expenditures and revenues on a budgetary basis. For savings for Bid-to-Goal, it is a bid compared to the actual in-scope costs for the Program. He stated there are different calculations, actuals, and a different starting point. He then gave examples. Mr. Ruiz then reiterated.

Chairperson Billings expressed his thoughts that the Program could diminish over time as there could come a point where there are no other goals to achieve. Mr. Barrett stated as long as there is a Program, we will continue to get fresh ideas from the employees because they understand the need to have greater efficiency to get the incentive awards. Chairperson Billings added he feels it is a very valuable tool. Ex-Officio Member Williams concurred and stated he believes the

Independent Rates Oversight Committee – IROC

December 21, 2009

MINUTES

more involvement you can get from employees, the better it will be as it is the employees who know where the real savings are. He added he would like to get a briefing sometime in the near future, of what the employees see and how these numbers are put together. Tom Crane stated he will put this together and present next month while asking for IROC's support for the MOU.

8. **Dedicated Reserve for Efficiencies and Savings (DRES) Reports for Water and Wastewater**

Mr. Greek provided handouts highlighting the FY08 final DRES calculations. He explained when regarding the DRES, the comparison here is looking at a published document as our source for the Rate Case, which is the Cost of Service Study developed by Raftelis. This is used to support the rate increases brought forward in February 2007. Within the report are tables explaining the operating and capital expenditures, as well as revenues anticipated to be each year FY08-FY11.

He then explained the line items in detail, presented on the handouts for the Metropolitan Wastewater Department as well as the Water Department. These covered Operating Revenues, Operation Expense, Non-operating Revenues (Expenses), Net Increase before reserves & unbudgeted liabilities, Net Increase and finally the DRES Reserve Balances at the end of FY08. He stated supporting schedules can be made available to IROC at request. He stated he will be glad to go over this in more detail at the Finance Subcommittee at request.

Chairperson Billings inquired about pension costs, and if these handouts included all benefits, administrative and pension costs. Mr. Greek stated yes all included. For FY09 the CAFR will be finalized by the end of this month, and should have an anticipated date from the Comptroller's Office to get the budgetary revenue and expenditure statements ready so the DRES can be prepared for FY09.

9. **Sub-Committee Reports**

a. **Finance – Subcommittee Chair Hollingworth**

December meeting was cancelled. Nothing to report at this time.

b. **Environmental & Technical – Subcommittee Chair Peugh**

- November Notes are included in packet
- December meeting had a presentation on the Miramar Landfill and the Metro Biosolids Power Generation Project. Was incredibly complex but learned there are a lot of benefits to it, and it provides energy to reduce costs, provided tax benefits for contractors, reduced greenhouse gas discharges and may actually provide some greenhouse benefits.
- Presentation on the Wastewater Recycling Study by Marsi Steirer. Questions were asked regarding next steps to the Waiver; efficiency vs. capacity of potable re-use plans; and City's commitments to future purple pipe distribution and possible expansion for industrial use. He

Independent Rates Oversight Committee – IROC

December 21, 2009

MINUTES

stated he will be an alternate member Don Billings for the Potable Re-use Advisory Committee.

- Discussed Cost of Service Study for reclaimed water, hopefully the new costs will come in gradually rather than suddenly. Report due by end of month.
- Discussed environmental and technical issues regarding the IROC Annual Report.

c. **Public Outreach, Education & Customer Service – Subcommittee**
Chair Welch

Minutes for November were included in the packet. Subcommittee Chair Welch was not present to discuss this item.

10. **Metro/JPA Report Out – Chairperson Billings**

No meeting was held. No report at this time.

11. **Projected Impacts of Escalating Pension Obligations on the Water and Wastewater Utilities**

Rod Greek gave a summary regarding FY10's budget for the Department. He stated the Wastewater Pension was budgeted for \$5,800,000 and Water was budgeted for 5,500,000. He briefly broke it down by Retirement, UAAL for Unions, Retiree Health, and Other Post Employment Benefits. He stated there is an additional payment going to Council in the February timeframe, for a settlement. The total settlement for the City is \$37,000,000, so this may be an approximate \$2,000,000 payment for both Wastewater and Water. We have the resources to make a cash payment that allows us to pay a lower amount for paying early.

Ex-Officio Member Williams stated he would like to see a rough percentage of pension vs. administration, operations and maintenance. Chairperson Billings had questions regarding the budget risk that is represented by this. Mr. Greek stated based on how it is projected and budgeted for salaries and pension, he does not see a risk for the Utility near or long term. He can provide a schedule showing the salaries and breakdown between fringe and fringe related to pension to see proportions. Chairperson Billings agreed to learning more about this. Mr. Barrett offered to have a person from the Retirement Board perhaps, come speak to IROC in the future. Mr. Greek will look in to.

12. **2011 Leadership Development Program for Public Utilities Department**

John Gavares, Organizational Effectiveness Specialist III, gave an overview of the presentation for the 2011 Leadership Development Program (Program) planned to be rolled out in FY11. He presented at the TAC Committee recently and they are very supportive to invest in our employees. They also expressed interest in attending.

Independent Rates Oversight Committee – IROC

December 21, 2009

MINUTES

Handouts were distributed to follow along. He went over the goals of the Program which are to develop future leaders and build “bench-strength” at various levels of the organization; develop clarity and alignment of expectations for Public Utilities Department (Utility) leaders and managers; and enhance the leadership and management capacity within the Utility. He stated employees can apply and are then nominated by their Deputy Director to participate. He gave a draft curriculum overview of the Field Academy vs. the Management Academy.

He noted Programs are being developed for employees at all levels from front line employees to first line and mid line Supervisors. He noted the draft implementation timelines which are: Jan 2010 – process request for proposals; Apr 2010 – select consulting firm; Jun 2010 – partner with consultant regarding curriculum design; Sep 2010 – Delivery of two ½ day pilots to Executive Team as well as selection of Academy participants; Fall 2010 will be the first Management & Field Academies and in the Spring of 2011 the second Management and Field Academies. He stated the Program will include an “EQ” portion dealing with “Emotional Intelligence” which is a new dynamic.

Mr. Gavares went over the topics included in the different Academies. He then reviewed the draft cost of the program stating the Management Academy (8 day) is \$1,950 per person and for the Field Academy (2 day, and 5 half-days) \$1,500 per person. Estimated 5-year Program cost to be \$900,000. He added this will be going to Council for approval in the April/May timeframe.

13. Proposed Agenda Items for Next IROC Meeting

- UCAN’s offer to IROC for use of funding

14. IROC Members’ Comments

Please send items to Ernie Linares.

Adjournment of IROC

At 12:14 Chairperson Billings motioned to adjourn, all were in favor, the meeting was adjourned.

Recording Secretary: _____

Monica Musaraca